

**CORPORATE GOVERNANCE  
IN BANK ZACHODNI WBK GROUP  
IN 2012**

2012



**WBK** | Bank Zachodni WBK S.A.

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# I. Statement on Corporate Governance in 2012

## 1. Introduction

The information included in this chapter fulfils the requirements of corporate governance report set out in § 29 section 5 of the Terms of Reference of Warsaw Stock Exchange (WSE) and § 1 of the WSE Management Board Resolution no. 1013/2007 of 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 of 16 December 2009, preparation of the Representations on Corporate Governance in 2012 in line with the Ordinance of the Minister of Finance of 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state (§ 91 section 5 point 4) and publishing of the representations as part of the annual report means fulfilment of the requirement to provide WSE with a corporate governance report.

## 2. Code of Best Practice

Corporate governance rules applicable to Bank Zachodni WBK in 2012 are set forth in "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 20/1287/2011 of 19 October 2011 and is available at WSE website (<http://corp-gov.gpw.pl/>) and the bank's website ([www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl)). It is an updated code of best practice which was valid from 1 January 2012 until 31 December 2012. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 of 4 July 2007 on introduction of "Code of Best Practice for WSE Listed Companies".

The updated code of best practice effective until the end of 2012 had been approved for use in Bank Zachodni WBK by virtue of BZ WBK Management Board Resolution no. 142/2011 of 6 December 2011, and accepted by BZ WBK Supervisory Board. In December 2012, measures were taken to implement the updated version of "Code of Best Practice for WSE Listed Companies" which was introduced by virtue of WSE Supervisory Board Resolution no. 19/130/2012 of 21 November 2012, effective since 1 January 2013. The changes are related mainly to general meetings held by public companies via electronic channels.

Bank Zachodni WBK has complied with the official corporate governance rules since 2002 when the first version of the code of best practice was published ("Best Practice for Public Companies in 2002").

## 3. Management Board's Statement on Corporate Governance

In 2012, Bank Zachodni WBK duly complied with all the corporate governance rules set forth in the binding version of "Code of Best Practice for WSE Listed Companies". During that period, no corporate governance breaches occurred.

## 4. Equity Securities Issued by the Bank

### Ownership Structure of Share Capital

According to the information held by BZ WBK Management Board as at 31 December 2012, the shareholder having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders was Banco Santander S.A. with its registered office in Santander. The company's interest in the share capital and the voting power of Bank Zachodni WBK was 94.23%, which was down by 2.02 p.p. YoY as a result of an increase in the bank's share capital (effective from 9 August 2012) through the issue of 1,561,618 series I shares placed in full with the European Bank for Reconstruction and Development (EBRD). The remaining shares were in free float.

Shareholder	Number of Shares Held		Number of Votes at AGM		% in the Share Capital & Voting Power at AGM	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Banco Santander S.A.	70 334 512	70 334 512	70 334 512	70 334 512	94,23%	96,25%
Others	4 303 119	2 741 501	4 303 119	2 741 501	5,77%	3,75%
<b>Total</b>	<b>74 637 631</b>	<b>73 076 013</b>	<b>74 637 631</b>	<b>73 076 013</b>	<b>100,0%</b>	<b>100,0%</b>

On 4 January 2013, the merger of Bank Zachodni WBK and Kredyt Bank, and an increase in the share capital of the merged entity were entered into the Business Register. The merger was effected by way of a transfer of all of the assets of Kredyt Bank to Bank Zachodni WBK (a merger through acquisition) in exchange for 18,907,458 newly issued series J shares allotted to all of the existing shareholders of Kredyt Bank at the exchange ratio of 6.96 merger issue shares for 100 shares in Kredyt Bank. KBC Bank NV – the majority shareholder of Kredyt Bank – acquired 15,125,966 merger shares representing 16.17% of total votes at the GM of Bank Zachodni WBK, becoming the second shareholder, after Banco Santander S.A., with the min. 5% voting power at the GM.

Consequently, as at 4 January 2013, the ownership structure of the merged bank was as follows:

Shareholder	Number of Shares Held	% in the Share Capital	Number of Votes at AGM	Voting Power at AGM
Banco Santander S.A.	70 334 512	75,19%	70 334 512	75,19%
KBC NV	15 125 966	16,17%	15 125 966	16,17%
Others	8 084 611	8,64%	8 084 611	8,64%
<b>Total</b>	<b>93 545 089</b>	<b>100,0%</b>	<b>93 545 089</b>	<b>100,0%</b>

For detailed information about the above-mentioned event, please see Chapter VI “Key Projects, Developments and Other Information” of the “Management Board Report on Bank Zachodni WBK Group Performance in 2012”, section “Legal Merger with Kredyt Bank”.

In the Investment Agreement of 27 February 2012 between Banco Santander and KBC Bank IV on the intended merger of Bank Zachodni WBK and Kredyt Bank, Banco Santander undertook to make joint effort with KBC Bank NV – following the merger – to reduce the latter’s stake in the merged bank from above 16% to below 10%. Banco Santander S.A. will consequently take measures to offer shares of the Belgian bank to investors. It is the intention of KBC Bank NV to sell the remaining stake as well.

## Rights and Restrictions Attaching to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. Each share carries one vote at the General Meeting of Shareholders.

The nominal value is PLN 10 per share. All the issued shares have been fully paid up.

Structure of the share capital of Bank Zachodni WBK as at 31.12.2011, 31.12.2012 and 04.01.2013

Date of change	Series /issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
until 9.07.2012	A	bearer	none	none	5 120 000	51 200 000
	B	bearer	none	none	724 073	7 240 730
	C	bearer	none	none	22 155 927	221 559 270
	D	bearer	none	none	1 470 589	14 705 890
	E	bearer	none	none	980 393	9 803 930
	F	bearer	none	none	2 500 000	25 000 000
	G	bearer	none	none	40 009 302	400 093 020
	H	bearer	none	none	115 729	1 157 290
	I	bearer	none	none	1 561 618	15 616 180
	J	bearer	none	none	18 907 458	189 074 580
from 4.01.2013	<b>Total</b>				<b>93 545 089</b>	<b>935 450 890</b>

The bank did not issue any series of shares that would give the holders any special control rights or would limit their voting power or other rights. Likewise, there are no restrictions on the transfer of title to the Issuer's shares.

The control rights of Banco Santander as a parent entity of Bank Zachodni WBK arise from the number of shares and the resulting share of the voting power at the General Meeting of Shareholders of Bank Zachodni WBK.

## 5. Governing Bodies

### General Meeting of Shareholders

#### Annual General Meeting of Shareholders of Bank Zachodni WBK

The Annual General Meeting of Shareholders of Bank Zachodni WBK (AGM) held on 10 May 2012 approved the 2011 financial statements submitted by the Management Board and the Supervisory Board, granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year, appointed a new member of the Supervisory Board, adopted general rules on variable components of remuneration paid to individuals holding managerial positions in the Group and resolved on distribution of the net profit and dividend payment of PLN 8 per share. The AGM also adopted a resolution regarding an increase in the bank's share capital through the issue of series I ordinary bearer shares (along with a waiver of the existing shareholders' pre-emptive rights), amendment of the bank's Statutes and measures to be taken with a view to admitting and introducing the shares to trading on the regulated market operated by the Warsaw Stock Exchange.

#### Extraordinary General Meetings of Shareholders of Bank Zachodni WBK

The Extraordinary General Meeting of Shareholders of Bank Zachodni WBK (EGM) held on 30 July 2012 acknowledged the presentation of key elements of the plan of merger between Bank Zachodni WBK and Kredyt Bank together with an audit opinion, and all the material changes to assets and liabilities which occurred between the date of the merger plan and the date of the merger resolution. The EGM adopted a resolution regarding the merger of Bank Zachodni WBK and Kredyt Bank, increase in the share capital of Bank Zachodni WBK, amendment of the Statutes, dematerialisation of the series J shares and seeking of the admission and introduction thereof to trading on the regulated market operated by the Warsaw Stock Exchange.

The next Extraordinary General Meeting of Bank Zachodni WBK held on 13 February 2013 appointed two new members of the Supervisory Board nominated by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV.

## Organisation and Powers of the General Meeting of Shareholders

The General Meeting of Bank Zachodni WBK Shareholders (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, BZ WBK Statutes and Terms of Reference for BZ WBK GM. The Statutes as well as the Terms of Reference are available at the bank's website.

The GM resolves on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of secret ballot - allows shareholders to stay anonymous. Each share carries one vote.

Candidates for the Supervisory Board are voted upon on an individual basis, in an alphabetical order.

The General Meeting is broadcast live online to all interested parties and the recording is available at the bank's website for later use.

## Shareholders' Rights

The rights of the shareholders of Bank Zachodni WBK are set out in the Terms of Reference of BZ WBK GM in line with the Commercial Companies Code.

In particular, the shareholders have the following rights with respect to GM:

- Each shareholder may request that the list of shareholders be e-mailed free-of-charge to the indicated address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their expense.
- Shareholders may:
  - ✓ a week before the GM, demand copies of requests included in the GM agenda;
  - ✓ have access to minutes of the GM and request copies of resolutions confirmed by the bank's Management Board as true copies;
  - ✓ request voting by secret ballot;
  - ✓ appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code;
  - ✓ seek information from the Management Board on issues on the GM agenda, as provided for by the Commercial Companies Code;
  - ✓ exercise their voting rights (each share gives one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

## Method of Changing the Statutes

Bank Zachodni WBK changes its Statutes in a method prescribed by the applicable law.

In 2012, the Statutes of Bank Zachodni WBK, in particular § 10 thereof, were amended twice in relation to an increase in the company's share capital through the share issue.

- By virtue of the resolution of the Annual General Meeting of 10 May 2012, the share capital of Bank Zachodni WBK was increased by PLN 15,616,180 up to PLN 746,376,310 through the issue of 1,561,618 ordinary series I bearer shares having a nominal value of PLN 10.00 each.
- Pursuant to the resolution of the Extraordinary General Meeting of 30 July 2012, the share capital of Bank Zachodni WBK was increased by PLN 189,074,580 up to PLN 935,450,890 through the issue of 18,907,458 ordinary series J bearer shares having a nominal value of PLN 10.00 each (merger issue shares).

## Supervisory Board

### Composition of the Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31.12.2012 and 31.12.2011.

Role in the Supervisory Board	Composition as at 31.12.2012	Composition as at 31.12.2011
Chairman of the Supervisory Board:	1. Gerry Byrne	1. Gerry Byrne
Vice-Chairman of the Supervisory Board:	2. José Manuel Varela	2. José Manuel Varela
	3. José Antonio Alvarez	3. José Antonio Alvarez
	4. Witold Jurcewicz	4. Witold Jurcewicz
Members of the Supervisory Board:	5. José Luis de Mora	5. José Luis de Mora
	-	6. Piotr Partyga
	6. John Power	7. John Power
	7. Jerzy Surma	-

The members of the Supervisory Board as at 31 December 2012 were appointed for a joint 3-year term of office by the GM held on 20 April 2011, except for Jerzy Surma who was nominated by the GM held on 10 May 2012. On that day, Piotr Partyga resigned as a member of the Supervisory Board in view of his appointment as a member of the bank's Management Board for a new term of office.

As at 31 December 2012, the following members of the Supervisory Board held an independent status: Witold Jurcewicz, John Power and Jerzy Surma.

On 13 February 2013, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK appointed two new members of the Supervisory Board: David R. Hexter and Guy Libot, who had been nominated by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV.

In the period from 1 January to 31 December 2012, 6 Supervisory Board meetings were held at which 60 resolutions were passed. Average attendance was 98%.

### Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates particularly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available at the bank's website.

The Supervisory Board is composed of at least 5 members who are appointed for a joint 3-year term of office. The members of the Supervisory Board, including the Chairman, are appointed and dismissed by General Meeting of Shareholders. The Management Board advises the Polish Financial Supervision Authority (KNF) of the Supervisory Board's composition.

Three members of the Supervisory Board confirmed in writing their independent status of the bank and its connected entities. Pursuant to the bank's Statutes, at least two members should have an independent status.

The Supervisory Board exercises on-going supervision over all the aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Resolutions are voted upon in a secret ballot in the cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret voting. The Supervisory Board meetings are held as needed, however, at least 3 times in any financial year. The Supervisory Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

## Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. The role of the committees is to facilitate the work of the Supervisory Board, i.e. prepare draft resolutions of the Supervisory Board with respect to own requests or requests submitted by the Management Board for approval.

The following Supervisory Board committees operate in Bank Zachodni WBK: Audit and Compliance Committee, Risk Oversight Committee and Remuneration and Nominations Committee.

Composition of Supervisory Board Committees as at 31.12.2012

Supervisory Board Committee	Role	Ref.	Composition
Audit and Compliance Committee	Chairman:	1.	John Power
	Members:	2.	Witold Jurcewicz
		3.	Jerzy Surma
		4.	José Manuel Varela
Risk Oversight Committee	Chairman:	1.	John Power
	Members:	2.	Witold Jurcewicz
		3.	Jerzy Surma
		4.	José Manuel Varela
Remuneration and Nominations Committee	Chairman:	1.	Gerry Byrne
	Members:	2.	José Antonio Alvarez
		3.	José Luis de Mora

The Audit and Compliance Committee oversees the financial reporting in the bank, ensuring top quality of financial reports and disclosure practice and its compliance with the law, KNF requirements and the accounting policies. Furthermore, the Committee assesses the effectiveness of the internal control system and financial and non-financial risk management frameworks and ensures that the chartered auditor and the entity authorised to audit the financial statements are independent. The Committee members receive reports from an external auditor and participate in regular meetings with the representatives of internal and external audit (not attended by the bank's Management Board members) as well as with the Management Board members in charge of the Legal and Compliance Division and Risk Management Division. The Audit and Compliance Committee is composed mostly of independent Supervisory Board members.

The Risk Oversight Committee presents the Supervisory Board with the conclusions and recommendations on the general risk management framework, reviews the Risk Appetite Statement, assesses the business strategy in terms of its adequacy for the risk exposure as well as goals and financial plans of the organisation, verifies the risk profile and monitors internal controls.

Throughout a year, the Audit and Compliance Committee and Risk Oversight Committee convene at least four times at the dates adjusted to the reporting and audit cycle. Additional meetings are held if the Chairman or the members find it necessary. The quorum is two.

The Remuneration and Nominations Committee presents the Supervisory Board with recommendations about remuneration policies and practices, performs an annual review of remuneration for members of the Management and Supervisory Boards and the bonus scheme for Management Board members, analyses the proposed incentive solutions and other remuneration schemes for the bank and subsidiaries.

The Remuneration and Nominations Committee convenes at least three times a year. Additional meetings are held at the request of the Chairman. The quorum is two.

The annual reports on activities of the Supervisory Board and its Committees as well as the Supervisory Board's reports on examination of the bank's and the Group's annual report along with the assessment of the Group's operations, including internal control and risk management system, are published in current reports which convey the resolutions passed by the AGM of Bank Zachodni WBK.

## Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at 31.12.2011 and 31.12.2012 together with the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 31.12.2012	Reporting Areas 2012	Ref.	Composition as at 31.12.2011	Reporting Areas 2011
President of the Board:	1.	Mateusz Morawiecki	Units reporting directly to President: Internal Audit Area, Corporate Communications & Marketing Area	1.	Mateusz Morawiecki	Reporting units: Credit Division, Internal Audit Area, Corporate Communications & Marketing Area, Wealth Management Department, Bancassurance Office, Treasury Division
	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Finance Division
	-	-	-	4.	Justyn Konieczny	Equity Area
	4.	Michael McCarthy	Business and Corporate Banking Division	5.	Michael McCarthy	Business and Corporate Banking Division
Members of the Board:	5.	Piotr Partyga	Human Resources Management Division	6.	Janusz Krawczyk	Human Resources Management Division
	6.	Juan de Porras Aguirre	Global Banking & Markets Division	7.	Juan de Porras Aguirre	Global Banking & Markets Division
	7.	Marcin Prell	Legal and Compliance Division	8.	Marcin Prell	Legal and Compliance Division
	8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division	-	-	-
	9.	Miroslaw Skiba	Retail Banking Division	9.	Miroslaw Skiba	Retail Banking Division
	10.	Feliks Szyszkowiak	Business Support Division	10.	Feliks Szyszkowiak	Business Support Division

In 2012, the composition of the Management Board of Bank Zachodni WBK changed as follows:

- On 8 May 2012, the bank informed about resignation of Justyn Konieczny (in charge of the Equity Area) and Janusz Krawczyk (in charge of the HR Management Division) as MB members in the next term of office starting from 10 May 2012.
- On 10 May 2012, the Supervisory Board of Bank Zachodni WBK appointed all the remaining members of the Management Board for the next term of office and nominated Piotr Partyga as a new MB member who took over from Janusz Krawczyk as Head of the HR Management Division.
- On 30 August 2012, the Supervisory Board appointed Marco Antonio Silva Rojas as a member of the Management Board in charge of the Accounting and Financial Control Division (which was spun off the former Finance Division), effective from 3 September 2012. Other responsibilities, in particular assets and liabilities management, were delegated to the Financial Management Division headed by Eamonn Crowley, a Management Board member.

### Appointment and Removal of Executives

The members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, the Banking Law and the bank's Statutes.

The Management Board is composed of at least 3 members (including the President) who are appointed for a joint 3-year term of office by the Supervisory Board. At least half of the Management Board members, including the President, should have higher education, be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage the Polish banking institution. Two members of the Management Board, including the President, are appointed subject to approval from the Polish Financial Supervisory Authority (KNF). The Management Board members may be dismissed by the Supervisory Board or General Meeting of Shareholders at any time.

## **Powers of Executives**

Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Permanent committees operative in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Operational Risk Management Committee, Deposit Working Group, CRM Committee, Settlement Committee, Anti-Money Laundering and Terrorist Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local Product Marketing and Monitoring Committee, Monitoring Committee.

Management Board members acting severally do not have any specific powers. They cannot take decisions on issuing or redeeming shares.

## **Role of the Management Board**

The Management Board operations are primarily governed by the Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

The Management Board manages and represents the bank. According to the bank's Statutes, the following individuals are authorized to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (prokurent), or two commercial representatives acting jointly. Representatives authorized to act severally or jointly with any of the persons listed in letter b) or with another authorized representative can be appointed.

The Management Board resolves on all issues which have not been restricted to the remit of the General Meeting of Shareholders or Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. The Management Board meetings are held as needed. The Management Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

## **Other Information on the Management and Supervisory Boards**

### **Remuneration of the Supervisory and Management Board Members**

Pursuant to the Statutes of Bank Zachodni WBK the remuneration of the Supervisory Board members is set by the General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2012, the remuneration for the Supervisory Board of Bank Zachodni WBK was set by virtue of Resolution no. 35 of the General Meeting of Shareholders of Bank Zachodni WBK of 20 April 2011.

Pursuant to the Statutes of Bank Zachodni WBK, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration and Nominations Committee. The Remuneration and Nominations Committee defines the remuneration policy in respect of the Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member. It also performs annual reviews of the remuneration of Management Board members.

Information on the remuneration of the BZ WBK Supervisory and Management Board members for 2012 and the comparable period is presented in Note 45 to the Consolidated Financial Statements of Bank Zachodni WBK Group for 2012.

## Agreements between Bank Zachodni WBK and its Executive Directors

Bank Zachodni WBK Management Board members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a once-off severance pay. The severance pay does not apply if the Management Board member accepts a new job role in the bank/Group.

## Shares and conditional rights held by the Supervisory and Management Board Members

As at 31 December 2012 and 31 December 2011, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK.

Under the 1st BZ WBK Share Incentive Scheme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 of series H shares issued as part of the conditional increase in the share capital. Due to the expiry of the 2nd and 3rd Incentive Scheme in 2010 and 2011 respectively, under which no rights were exercised, the Management Board members have conditional rights to acquire shares under the 4th Incentive Scheme. Below are the shares of Bank Zachodni WBK and attached rights held by the Management Board members as of 31 December 2012 and 31 December 2011.

Management Board Members	31.12.2012		31.12.2011	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	3 591	10 120	3 591	10 120
Andrzej Burliga	1 606	4 282	1 606	4 282
Eamonn Crowley	-	4 003	-	4 003
Justyn Konieczny *			3 591	5 283
Janusz Krawczyk *			3 397	3 854
Michael McCarthy	-	4 875	-	4 875
Piotr Partyga **	-	2 855		
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	2 530	3 704	2 530	3 704
Marco Antonio Silva Rojas ***	-	-		
Mirosław Skiba	1 575	4 282	1 575	4 282
Feliks Szyszkowiak	1 755	4 449	3 438	4 449
<b>Total</b>	<b>11 057</b>	<b>38 570</b>	<b>19 728</b>	<b>44 852</b>

\* Justyn Konieczny and Janusz Krawczyk decided not to apply for re-election to BZ WBK Management Board on 10 May 2012.

\*\* Piotr Partyga was appointed as BZ WBK Management Board Member for a new term of office on 10 May 2012.

\*\*\* Marco Antonio Silva Rojas was appointed as BZ WBK Management Board Member on 30 August 2012, effective from 3 September 2012.

## 6. Control System of Financial Statements

### Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports the decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is adjusted to the organisational structure and risk management system and covers the Business Support Centre, branches, Partner outlets and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. Oversight over the internal control and risk management system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

The bank has adopted the Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of the internal control and lists the related roles and responsibilities.

The internal control and risk management systems are based on three lines of defence:

- first line - controls embedded in processes delivered by each staff member and their line manager;
- second line – units supporting the management team in risk identification and management as well as units assessing the effectiveness of the first line;
- third line - internal audit unit which reviews the adequacy and efficiency of the first and second lines.

Each organisational unit operates in line with their Terms of Reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including quality and processing of financial data. The internal control model in place allows for systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK Group.

One of the key objectives of the internal control framework is to ensure full credibility of financial reporting.

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information. Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are under strict control as well. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

The bank follows legal and regulatory changes related to reporting and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

The financial statements are formally approved by the Disclosure Committee which is responsible for ensuring that the data are true and compliant with law. The Disclosure Committee recommends the financial statements to the Management Board for ratification.

The bank's management confirms that the controls in place effectively mitigate the risk of failure to identify material errors in the financial statement.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of annual certification process for compliance with Sarbanes-Oxley Act.

## **Internal Control Compliant with the Sarbanes-Oxley Act**

In the light of the Sarbanes-Oxley Act, Bank Zachodni WBK Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the abovementioned act.

As agreed with the Internal Control Department of Santander Group and the External Auditor, the certification process for compliance with Sarbanes-Oxley Act in 2012 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on the Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements. The design and effectiveness of controls was tested by a dedicated second line unit. The effectiveness tests covered processes and key controls in the business and IT areas as well as entity level controls (Global Framework).

The test results are the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2012, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control of financial reporting.

## Selection of Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 10 May 2012 the bank's Supervisory Board passed a resolution appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) as an entity to review and audit the bank's stand-alone and the Group's consolidated financial statements for H1 2012 and the entire year 2012. The bank also contracted Deloitte Polska and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect impartiality and independence of the auditor.

Retaining the same auditor both by Bank Zachodni WBK and Banco Santander S.A. ensures a consistent approach to the audit process across Santander Group, including certification for compliance with the American Sarbanes-Oxley Act. Banco Santander S.A. selects auditors for a fixed period of time, from three to nine years, starting from the beginning of the first financial year.

## Remuneration of Auditor

The table below shows the remuneration paid to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to agreements concluded in 2011 and 2012.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2012*	Reporting Year ended on 31.12.2011**
Audit fees in respect of the parent bank	927	860
Audit fees in respect of the subsidiaries	386	365
Audit fees related to the assurance services, including the review of the parent bank	1 510	860
Audit fees related to the assurance services, including the review of the subsidiaries	74	85

Remuneration based on the following agreements:

\* 1) Agreement on Audit of Consolidation Package (for H1 2012) of 10 May 2012; 2) Agreement on Review of Financial Statements of 10 May 2012; 3) Agreement on Audit of Financial Statements of 12 October 2012 with Annex no 1; 4) Agreement on Audit of Consolidation Package (for H2 2012) of 12 October 2012 with Annex no 1; 5) Agreement on Review of Financial Statements (for 9-month period) of 5 November 2012.

\*\* 1) Agreement on Audit and Review of Financial Statements of 6 June 2011; 2) Agreement on Audit of Consolidation Package of 6 June 2011

## 7. Pending Court Proceedings

As at 31 December 2012, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

Court Proceedings with BZ WBK Group as a Party	PLN m	
	31.12.2012	31.12.2011
Amounts claimed by the Group	44,4	44,6
Claims against the Group	81,3	132,1
Receivables due to bankruptcy or arrangement cases	9,7	7,5
<b>Value of all litigation</b>	<b>135,4</b>	<b>184,2</b>
<b>Share [%] of all litigation in equity</b>	<b>1,5%</b>	<b>2,5%</b>
Completed significant court proceedings	100,0	48,7